

**CITY OF ADAIR**  
**INDEPENDENT ACCOUNTANTS' REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**  
**FOR THE PERIOD**  
**JULY 1, 2013 THROUGH JUNE 30, 2014**

## Table of Contents

	<u>Page</u>
Officials	3
Independent Accountants' Report on Applying Agreed-Upon Procedures	4-5
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 7
City Library Department	B 7
City Council Minutes	C 7
Payroll Transactions	D 7
Utility Reconciliations	E 8
Deficit Fund Balance	F 8
Excess Balances	G 8
Revenue Notes	H 8
Urban Renewal Tax Increment Financing Debt	I 8
Urban Renewal Annual Report	J 9
Credit Card Policy	K 9
Separately Maintained Records	L 9

**City of Adair**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>(Before January 2014)</u>		
Dennis Weigel	Mayor	Jan 2014
Donald Eggen	Council Member	Jan 2014
Jim Zimmerline	Council Member	Jan 2014
Larry Ludwig	Council Member	Jan 2016
James Snyder	Council Member	Jan 2016
Craig Wedemeyer	Council Member	Jan 2016
Michelle King	Clerk/Treasurer	Indefinite
Beverly Wild	Attorney	Indefinite
<u>(After January 2014)</u>		
John Larsen	Mayor	Jan 2016
Larry Ludwig	Council Member	Jan 2016
James Snyder	Council Member	Jan 2016
Craig Wedemeyer	Council Member	Jan 2016
Rick Hays	Council Member	Jan 2016
Rick Stanley	Council Member	Jan 2016
Michelle King	Clerk/Treasurer	Indefinite
Beverly Wild	Attorney	Indefinite



Diane McGrain, CPA  
Jim Menard, CPA

certified public accountants  
Independent Accountants' Report on Applying Agreed-Upon Procedures

To the Honorable Mayor  
and Members of City Council:

We have performed an agreed-upon procedures engagement of the City of Adair pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide certain minimum oversight of Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Adair for the period July 1, 2013 through June 30, 2014. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed security bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's (CFC) recommended uniform chart of accounts and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2013 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.

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11. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
13. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. We reviewed the annual certified budget for proper authorization, certification and timely amendment.
17. We reviewed the status of previous report findings.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the operations of the City of Adair, the objective of which is the expression of opinions on financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Adair, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Adair and other parties to whom the City of Adair may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Adair during the course of our examination. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Schroeder & Associates, PC*

November 11, 2014

## **Detailed Recommendations**

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Receipts – collecting, depositing, journalizing, and posting.
- (2) Payroll – preparation and distribution.
- (3) Utilities – preparing billings, collecting, assessing penalties, depositing and posting payments to customer accounts and recording payments in the City's utility system
- (4) Financial reporting – preparing and reconciling.
- (5) Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations and journal entries should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) City Library Department - All accounting functions are handled by one individual without adequate compensating controls.

Recommendation - The Library Department should segregate accounting duties to the extent possible.

- (C) City Council Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for three of the four meetings tested were not published within fifteen days.

Recommendation – The City should comply with the Code of Iowa and publish minutes within fifteen days.

- (D) Payroll Transactions – We noted no documentation of review and approval of department head time cards.

Recommendation – The Mayor should review and initial department head time sheets when signing their payroll checks.

- (E) Utility Reconciliations – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations.

- (F) Deficit Fund Balance – At June 30, 2014, the City had the following deficit balances:

Enterprise:

Sewer	\$ 106,656
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Recommendation – The City should investigate alternatives to eliminate the deficit in order to return this fund to a sound financial position.

- (G) Excess Balances – The balances in the Special Revenue Fund, LOST account and the Enterprise Fund, Garbage account were in excess of the disbursements made from each fund during the year

Recommendation – The City should consider the necessity of maintaining the excess balances, and where financially feasible, consider reducing the balance in an orderly manner through revenue reductions.

- (H) Revenue Notes – The Sewer Enterprise Fund has a deficit balance at the year ended June 30, 2014. The City has not established a sewer revenue note sinking account as required by the provisions of the sewer revenue note resolution.

Recommendation – The Sewer Bond Resolution requires that rates be sufficiently set to fund the operations of the Sewer Enterprise Fund and service debt requirements. The City should review alternatives to meet this requirement. The City should establish the sinking account and make the monthly transfers required.

- (I) Urban Renewal Tax Increment Financing Debt – The City certified debt to the county for costs paid by other funds. However, a formal action was not taken by the City Council to approve the interfund loans. In addition, in November 2013, the City certified an interfund loan for \$150,000 for costs not yet incurred.

Recommendation – Any TIF debt incurred internally should be documented as debt before it is certified and repayment of this debt should be tracked. The City should only certify debt that has actually been incurred.



- (J) Urban Renewal Annual Report – The urban renewal annual report was not certified to the Iowa Department of Management on or before December 1. The report for the year ended June 30, 2013 included debt certified subsequent to that date.

Recommendation – The City should file the annual report and ensure the cash balances and debt amounts reported on the Levy Authority Summary agree with the City's records. The report should report only outstanding certified debt as the beginning of the year.

- (K) Credit Card Policy – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of the credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

- (L) Separately Maintained Records – The City of Adair Library Board maintains the accounting records pertaining to the operations of the library. These transactions and the resulting balances are not recorded in the Clerk's records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, and expended for any city purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records.